

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 11/24/2015	(3) CONTACT/PHONE Jim Hamilton, 781-5043	
(4) SUBJECT Request to approve rate adjustment for garbage hauling services provided by Mission Country Disposal, San Luis Garbage Company, and South County Sanitary Service. All Districts.			
(5) RECOMMENDED ACTION It is recommended the Board approve a Base Year rate increase effective January 1, 2016 and two Interim Year rate increases effective January 1, 2017 and January 1, 2018 for Mission Country Disposal, San Luis Garbage Company, and South County Sanitary Services.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____) <input type="checkbox"/> Board Business (Time Est. ____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date: <u>10-28-14</u>	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: James P. Erb, CPA, Auditor - Controller - Treasurer - Tax Collector

DATE: 11/24/2015

SUBJECT: Request to approve rate adjustment for garbage hauling services provided by Mission Country Disposal, San Luis Garbage Company, and South County Sanitary Service. All Districts.

RECOMMENDATION

It is recommended the Board approve a Base Year rate increase effective January 1, 2016 and two Interim Year rate increases effective January 1, 2017 and January 1, 2018 for Mission Country Disposal, San Luis Garbage Company, and South County Sanitary Services.

DISCUSSION

The Base Year increase amounts and related service areas are referenced in the table below and in the corresponding exhibited rate schedules. The Interim Year increases will be based on the annual increase (if any) in the Consumer Price Index (CPI) for Urban Consumers All U.S City Average.

In addition to increases in operating costs (such as fuel and labor), this Base Year request also includes components of tipping fee increases related to the expansion of Cold Canyon Landfill and costs for implementing a new organics diversion program to meet State mandates beginning in 2016.

<u>Exhibits</u>	<u>Hauler</u>	<u>Base Year Adjustment Components</u>	<u>Areas Served</u>
A, B	Mission Country Disposal	5.76% - Operating Costs 4.00% - Organics program <u>0.61% - Landfill</u> 10.37% - Total increase	San Simeon, rural Cayucos and rural Morro Bay
C, D	San Luis Garbage Company	1.42% - Operating Costs 2.35% - Organics program <u>0.88% - Landfill</u> 4.65% - Total increase	Airport, Rolling Hills, Country Club, Evans Road, Davenport Creek areas and rural areas near the City of San Luis Obispo
E, F	South County Sanitary Services	1.34% - Operating Costs 1.10% - Organics program <u>0.81% - Landfill</u> 3.25% - Total increase	Avila Beach, urbanized rural Arroyo Grande & Halcyon area, Nipomo Bluff area (non-Nipomo CSD), Nipomo Mesa area and other unincorporated areas of South San Luis Obispo County

It should be noted that rate increases for the areas of the Los Osos Community Services District (CSD) and surrounding unincorporated areas were requested by the hauler, but are not recommended for Board approval at this time. As a mandatory service, increases for waste collection in the Los Osos CSD are subject to Proposition 218 requirements and therefore will be presented to your Board as a separate item at a later date in accordance with required noticing procedures. We anticipate recommending that any increases approved for the Los Osos CSD through the Proposition 218 process also be applied at the same time to the unincorporated areas surrounding the Los Osos CSD.

Organics Diversion Program

Since late 2010, when the green waste composting facility at Cold Canyon Landfill was closed, composting alternatives have been researched. In 2014, AB 1826 was enacted which requires local jurisdictions across the state to develop programs to divert organic waste from landfills to authorized disposal facilities. At the May 13, 2015 San Luis Obispo County Integrated Waste Management Authority Board meeting, Waste Connections (parent company of San Luis Garbage, South County Sanitary, and Mission Country Disposal) presented a two-phased plan for long term management of organic waste to comply with the new requirements.

The first phase, known as the Interim Phase, will expand the existing residential green waste collection program to include food waste. Instead of processing the material at Cold Canyon, the material will go to the Engle and Gray composting facility in Santa Maria incurring additional transfer, transportation and tipping fee costs. This phase also includes additional costs for providing individual foods waste containers to customers. Interim Phase costs vary for the individual haulers depending on their service areas, thus the differing increase percentages attributed to the Organics Program for the three haulers in this request.

The Permanent Phase is planned to begin mid-2017. The Permanent Phase is planned to include the construction of an anaerobic digestion facility at Waste Connections existing yard on Old Santa Fe Road in the unincorporated area of San Luis Obispo. The increases requested now for Mission County and San Luis Garbage are expected to cover both phases of the organics diversion program since those haulers are incurring transfer costs in the Interim Phase that will be replaced with offsetting costs for operation of the Permanent Phase. South County Sanitary does not incur increased transfer costs (customer containers only) during the Interim Phase and therefore will incur additional costs in the Permanent Phase, at which time a new rate increase request is expected.

Rate Review Process

The County franchises with multiple solid waste haulers serving the unincorporated areas throughout the county. The County generally follows a three-year rate review cycle as do many local jurisdictions within the County. Under this methodology, base year applications are prepared every third year. Base year applications require a detailed submittal and review of past, current and future operating expenses. Less detailed interim year applications are required in years two and three of the cycle, and are intended to adjust only for the prior year's cost-of-living increase and changes to the landfill tipping fees.

In addition to our internal review of the application and financial justification for the increase, a key factor of our process is to ensure that any rates recommended for the Board's approval are consistent with rates approved for the same haulers in neighboring cities and/or special districts. This approach recognizes the rate review processes conducted in these jurisdictions and maintains rate consistency between customers residing in the same general service area.

The following table presents comparable jurisdictions that have approved rate increases based on the same Base Year request submitted to the County:

<u>Hauler</u>	<u>County Area Requested</u>		<u>Neighboring Jurisdiction</u>		
	<u>Area</u>	<u>Share of Hauler customers</u>	<u>Area</u>	<u>Share of Hauler customers</u>	<u>Effective Date Approved</u>
Mission Country Disposal	San Simeon, rural Cayucos and rural Morro Bay	4%	Cayucos Sanitary District (1) Cambria CSD (2)	96%	Jan 1, 2016
San Luis Garbage Company	Airport, Rolling Hills, Country Club, Evans Road, Davenport Creek areas and rural areas near the City of San Luis Obispo	10%	City of SLO (3)	90%	Jan 1, 2016
South County Sanitary Services	Avila Beach, urbanized rural Arroyo Grande & Halcyon area, Nipomo Bluff area (non-Nipomo CSD), Nipomo Mesa area and other unincorporated areas of South San Luis Obispo County	24%	Arroyo Grande (4) Grover Beach Pismo Beach Avila Beach CSD Oceano CSD Nipomo CSD (2)	76%	Jan 1, 2016

(1) Cayucos CSD approved rate increases without the Organics component since they do not receive green waste service

(2) Reduced increases were granted by Cambria CSD (9.93%) and Nipomo CSD (0%), while still providing allowable profit to the haulers, via adjustments to franchise fees charged by those jurisdictions

(3) Due to a cumulative CPI cap built into the County's franchise agreement, a lower increase is requested from the County (4.65%) than was approved by the City of SLO (5.25%)

(4) City of Arroyo Grande staff recommended approval (3.25%) but Council decision was deferred due to technical issues with Prop 218 noticing

Based upon our internal review and comparisons with rates in neighboring jurisdictions, we believe the fee increases requested for the County areas are reasonable and we recommend approval.

OTHER AGENCY INVOLVEMENT/IMPACT

The Auditor-Controller-Treasurer-Tax Collector's staff has worked with County Counsel and the County's Public Works Solid Waste Coordinator in the preparation of this request.

FINANCIAL CONSIDERATIONS

The County will receive a slight increase in franchise fee revenues; overall there will be no significant financial impact to the County budget.

RESULTS

Annual rate adjustments enable garbage companies to maintain established profit margins while continuing to provide solid waste services to the public at reasonable prices. The final result would be greater compliance with the County's vision of a healthier, more livable and well-governed community.

ATTACHMENTS

1. Exhibit A - Mission Country Disposal - San Simeon
2. Exhibit B - Mission Country Disposal - Rural Morro Bay and Cayucos
3. Exhibit C - San Luis Garbage Company - Airport, Rolling Hills, Country Club, Evans Road, Davenport Creek areas
4. Exhibit D - San Luis Garbage Company - Rural Areas near the City of San Luis Obispo
5. Exhibit E - South County Sanitary Services, Inc. - Avila Beach, Urbanized Rural Arroyo Grande & Halcyon Area, Nipomo Bluff Area (Non-Nipomo Community Service District), and Nipomo Mesa Area
6. Exhibit F - South County Sanitary Services, Inc. - Rural Arroyo Grande and other unincorporated areas of South San Luis Obispo County